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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

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FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

Date: December 21, 2010

RE: STAFF REPORT FOR THE APPLICATION OF RINCON RANCH ESTATES
WATER COMPANY, INC. FOR CANCELLATION OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY AND TRANSFER OF ITS UTILITY ASSETS
TO THE CITY OF TUCSON. (DOCKET NO. W-01337A-10-0375)

Attached is the Staff Report for the application of Rincon Ranch Estate Water Company, Inc. for the Arizona Corporation Commission cancelation of its Certificate of Convenience and Necessity, and for authority to transfer its utility assets to the City of Tucson. Staff recommends approval.

Any party to this procedure who wishes may file comments to the Staff Report with Commission's Docket Control by 4:00 p.m. on or before December 31, 2010.

SO:All:tdp

Originator: Alexander Ibhadie Igwe, CPA

Attachment: Original and 13 Copies

Arizona Corporation Commission

DOCKETED

DEC 21 2010

DOCKETED BY	
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Service List for: Rincon Ranch Estates Water Company, Inc.
Docket No. W-01337A-10-0375)

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

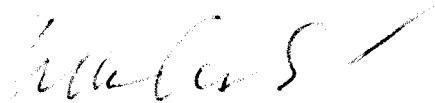
RINCON RANCH ESTATES WATER COMPANY, INC.
(DOCKET NO. W-01337A-10-0375)

APPLICATION FOR CANCELLATION OF CERTIFICATE OF CONVENIENCE AND
NECESSITY AND TRANSFER OF ITS UTILITY ASSETS TO THE CITY OF TUCSON

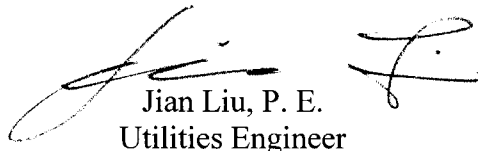
DECEMBER 21, 2010

STAFF ACKNOWLEDGMENT

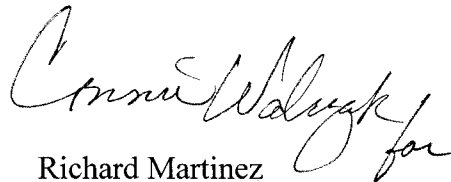
The Staff Report for Rincon Ranch Estates Water Company, Inc. (Docket No. W-01337A-10-0375) was prepared by the Staff members shown below. Alexander Ihade Igwe was responsible for reviewing the application and performing pertinent financial analysis; Jian Liu analyzed the engineering issues; and Richard Martinez researched the Consumer Service issues in this proceeding.



Alexander Ihade Igwe, CPA
Executive Consultant III



Jian Liu, P. E.
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
RINCON RANCH ESTATES WATERCOMPANY, INC.
DOCKET NO. W-01337A-10-0375

On September 10, 2010, Rincon Ranch Estates Water Company, Inc. ("Rincon Ranch" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for cancellation of its Certificate of Convenience and Necessity ("CC&N") and for authorization to transfer its utility assets to the City of Tucson ("City").

Rincon Ranch is a Public service Corporation ("PSC") certificated by the Commission to provide water services in Pima County, Arizona. The Company currently serves 245 customers based on rates and charges approved in Decision No. 63714, dated June 6, 2001.

The Company's application for cancellation of its CC&N results from the death of its Principal, Mr. Frank Calvert. According to the Company, Mr. Calvert's survivors do not have any interest in retaining ownership and management of its operations as a PSC. As a result, the family has entered into a sales agreement with the City for the purchase of its assets at the sum of \$300,000. The Company's utility assets had a net book value of approximately \$144,000, at the time of this filing.

According to the terms of agreement, the City will assume responsibility for providing water service to Rincon Ranch's existing customers, upon consummation of this transaction. The agreement provides for the City to seamlessly assimilate Rincon Ranch's existing customers without any prerequisite, such as payment of establishment fees or customers deposits. Based on the City's current tariff, the Company has provided a worksheet showing that its existing customers may experience a marginal rate reduction, upon transfer to the City's water system. The Company has agreed to retain responsibility for refunding outstanding customer deposits and any refundable balance of Advances in Aid of Construction ("AIAC") at the close of this transaction. However, the Company reports that it currently has zero balances on its customer deposit and AIAC accounts.

On December 7, 2010, the Company docketed its *Affidavit of Mailing* showing that its customers of record were noticed of this filing through a bill insert, mailed on September 7, 2010. As a part of its *Affidavit of Mailing*, the Company reports that on November 2, 2010, it consummated the requested sale and transfer of assets under this docket. In other words, the Company has transferred its assets and customers to the City prior to a Commission Order, in violation of the Arizona Revised Statute ("ARS") § 40-285. The Company argues that the transfer was in the public interest because it averted an emergency that would have resulted in the discontinuance of service to its affected customers. Rincon Ranch contends that if the City had not taken over its assets and assumed responsibility for serving its customers, it could not have continued to act as a PSC.

Staff has reviewed the Company's application and recommends Commission approval. Staff's conclusion is based on Mr. Calvert subsisting family's apathy to operating Rincon Ranch as a PSC. Further, Staff found that the City has the capability to purchase the Company's assets and absorb its customers in a seamless manner. Finally, the Company's existing customers will transition to the City without any precondition; and such customers could experience a marginal rate decrease.

Staff is concerned that the Company transferred its assets and customers to the City without prior Commission authority, in violation of ARS § 40-285. Staff finds that the Rincon Ranch's violation is somewhat mitigated by the emergency that would have resulted if the City had not assumed responsibility for serving Company's ratepayers. Therefore, Staff recommends no penalty for the Company's violation of ARS § 40-285.

Staff recommends that the Commission approve Rincon Ranch's application for cancellation of its CC&N.

Staff recommends that the Commission approve Rincon Ranch's request for authorization to sell and transfer its utility assets to the City.

Staff recommends that the Commission authorize Rincon Ranch to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

Staff recommends that Rincon Ranch files all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

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BACKGROUND

On September 10, 2010, Rincon Ranch Estates Water Company, Inc. ("Rincon Ranch" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for cancellation of its Certificate of Convenience and Necessity ("CC&N") and for authorization to transfer its utility assets to the City of Tucson ("City").

Rincon Ranch is a public service corporation certificated by the Commission to provide water service in Pima County, Arizona. The Company currently serves 245 customers based on rates and charges approved in Decision No. 63714, dated June 6, 2001.

The Company's application for cancellation of CC&N and transfer of its utility assets to the City is necessitated by the death of Frank Calvert, its Principal. According to the Company's application, Mr. Calvert's surviving family is neither interested in retaining ownership nor management of Rincon Ranch. As a result, the family solicited the City's interest in acquiring the Company. The City has agreed to purchase Rincon Ranch's assets and assimilate its existing customers. Rincon Ranch is interconnected to the City and surrounded by the City, except on the eastern side where the Company is bounded by the Saguaro National Park.

PUBLIC NOTICE

On September 7, 2010, the Company mailed a *Public Notice* of its application for cancellation of its CC&N and sale of its utility assets to each customer of record. The *Public Notice* elicited comments from each customer on or before October 10, 2010. According to the Company, there has been no opinion opposing its application. The Company's *Affidavit of Mailing* was docketed on December 7, 2010.

The Company's *Affidavit of Mailing* indicates that Rincon Ranch consummated its proposed sale and transfer of assets on November 2, 2010. Thus, the Company has violated Arizona Revised Statute ("ARS") § 40-285 by selling and transferring its utility assets and affected customers without Commission prior approval. However, the Company argues that the transfer was in the public interest because it averted an emergency that would have resulted in the discontinuance of service to its affected customers. Rincon Ranch contends that if the City had not taken over its assets and assumed responsibility for serving its customers, it could not have continued to act as a PSC.

CONSUMER SERVICE ISSUES

Staff's research indicates that Rincon Ranch was in good standing with the Corporation Division of the Arizona Corporation Commission.

Our search of the Consumer Services database, from January 1, 1997 through September 28, 2010 indicates that the Company had one compliant, two inquiries and zero opinion. The 2008 Compliant relates to the Company restricting a customer from receiving water on its

system. Also, in 2008, a potential customer whose private well was at the verge of going dry, inquired if it could become a customer of Rincon Ranch. Finally, a customer obtained the Company's telephone number from the Commission in 2010. All of these issues were successfully resolved and closed.

THE TRANSACTION

Sale of Assets

The Company seeks Commission authorization to sell and transfer certain of its utility assets to the City, at a sales price of \$300,000. Under the terms of agreement, the Company will transfer all its business assets, including wells, tanks, water lines, distribution systems, easements, licenses and other real property interests to the City. In its response to Staff's Data Request AII 1-1, Rincon Ranch provided a list of utility assets that will be transferred under this transaction. The Company reports that these assets had a net book value of \$144,347 as of November 26, 2010. However, the Company contends that it cannot determine if any gain or loss will result from this transaction, due to uncertainty relating to accumulated sales costs, sales expenses and closing costs.

Cancellation of Certificate of Convenience and Necessity

The Company seeks Commission cancellation of its CC&N due to the unwillingness of Mr. Calvert's surviving family to continue to operate Rincon Ranch as a PSC. The Company states that upon consummation of its proposed sales of assets and transfer of customers to the City, it will no longer be necessary to retain its existing CC&N.

ENGINEERING ANALYSIS

The Company's water system is comprised of two wells, one 5,000-gallon pressure tank, three storage tanks and a distribution system. The Arizona Department of Environmental Quality ("ADEQ") has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Also, the Arizona department of Water Resources ("ADWR") report indicates that Rincon Ranch is currently in compliance with departmental requirements governing water providers and/or community water systems. Finally, Staff understands that the City plans to undertake system improvements. Based on these findings, Staff concludes that the Company's proposed sale of assets and CC&N cancellation will not have an adverse effect on Rincon Ranch customers. A detailed engineering analysis is attached herewith as Exhibit A.

FINANCIAL ANALYSIS

Rincon Ranch proposes to sell and transfer its utility assets, with a net book value of approximately \$144,374, at a sales price of \$300,000. According to the terms of agreement, the City will deposit \$60,000 in cash or other certified funds at the close of this transaction. Thereafter, the City will make four annual payments of \$60,000, until its purchase price of \$300,000 is fully satisfied. Further, the Company and City have agreed that Rincon Ranch shall retain all outstanding customer deposits and Advances-in-Aid of Construction ("AIAC"), and assume responsibility for refunding such balances to pertinent customers. The Company claims in its responses to Staff Data Requests AII-1-6 and AII 1-7, it has no outstanding balances on its customer deposits and AIAC accounts.

The Company reports that its customers will experience a seamless transition to the City, without preconditions. In other words, Rincon Ranch's customers will not be obliged to meet any requirements before transferring to the City. Also, the Company has provided a worksheet in response to Staff's Data Request AII 1-5, showing that upon transfer, a customer with a monthly average consumption of 14,484 gallons, will experience \$1.29 decrease in monthly bill, from \$60.29 to \$59.00. Based on these representations, Staff finds that the Company's proposal to transfer its customers to the City will not negatively impact its existing ratepayers.

Staff is concerned that the Company transferred its assets and customers to the City without Commission authority, in violation of ARS § 40-285. Staff finds that the Rincon Ranch's violation is somewhat mitigated by the emergency that would have resulted if the City had not assumed responsibility for serving the Company's customers. Therefore, Staff recommends no penalty for the Company's violation of ARS § 40-285.

RECOMMENDATIONS

Staff recommends Commission approval of Rincon Ranch's application for cancellation of its CC&N.

Staff recommends Commission approval of Rincon Ranch's request for authorization to sell and transfer its utility assets to the City.


Staff recommends that the Commission authorize Rincon Ranch to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

Staff recommends that Rincon Ranch files all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

MEMORANDUM

DATE: December 15, 2010

TO: Alexander Ibhade Igwe, CPA
Executive Consultant III

FROM: Jian W. Liu 
Utilities Engineer

RE: In the matter of the application of Rincon Ranch Estates Water Company, Inc. for Approval to Transfer Assets and cancel their Certificate of Convenience and Necessity
Docket No. W-01337A-10-0375

Introduction

On September 10, 2010, Rincon Ranch Estates Water Company, Inc. ("Rincon Ranch" or "Company") filed an Application with the Arizona Corporation Commission ("ACC" or "Commission") for approval to sale its water system assets and cancel its Certificate of Convenience and Necessity ("CC&N"). Rincon Ranch holds a CC&N to provide water service to an area east and adjacent to the City of Tucson ("City") in Pima County, Arizona. The City is a municipal corporation providing water utility service to its customers in the Tucson area.

Buyer Background and Reasons Given in Support of the Proposed Transfer

Frank Calvert, the principal of Rincon Ranch, passed away and the surviving family members do not wish to continue owning and operating Rincon Ranch. As a consequence, the City was contacted to determine if the City was interested in buying the assets of Rincon Ranch and operating the Rincon water system. The City of Tucson agreed to acquire the assets of Rincon Ranch and the right to directly provide water utility service in the Rincon Ranch water CC&N service area.

According to information provided by the Company the City assumed day-to-day operations of the Rincon Ranch water system on November 2, 2010 and has specific plans for a complete integration of the Rincon Ranch water system into its system. The City's service area surrounds the Rincon Ranch CC&N on three sides. The City has stated that integrating the Rincon Ranch system into the City system will provide efficiencies and should improve service to customers served by integrated systems. The City has a twenty million gallon reservoir in the immediate area and is currently constructing a new east side service facility at the location of the reservoir.

Rincon Ranch Estates Water System

The system consists of two wells, one 5,000 gallon pressure tank, three storage tanks and a distribution system serving approximately 245 metered customers. Rincon Ranch has an interconnection with the City of Tucson Water system.¹ Staff concludes that the Rincon Ranch water system with the additional capacity provided by the City has adequate production and storage capacity to serve the existing customer base and reasonable growth.

Non-Account Water

Non-account water should be 10% or less and never more than 15%. The Company reported water use data in its 2009 Annual Report to the Commission which indicated that the Rincon water system experienced a water loss of 7.16% in 2009 which is within acceptable limits.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Rincon Ranch Water system under ADEQ Public Water System I.D. No. 10-100. ADEQ has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (ADEQ Compliance Status Report dated 12/14/2010).

Arizona Department of Water Resources ("ADWR") Compliance

The Company is located in Tucson Active Management Area ("AMA") and is subject to AMA reporting and conservation requirements. Staff received an ADWR compliance status report on October 7, 2010. ADWR reported that Rincon Ranch is currently in compliance with departmental requirements governing water providers and/or community water systems.

¹ This interconnection has been in place for somewhere between 25 to 35 years. The Company believes that the interconnection was established to provide an emergency source of water. However according to the Company in recent years it began drawing substantial water from the interconnection because one of its wells needed to be replaced and it did not make sense to drill a new well while negotiations were underway regarding a possible City acquisition of the Company. In the last three years Rincon Ranch has drawn between 40% to 45% of its water from the City.

ACC Compliance

A check of the Commission Utilities Division Compliance Section database indicated there are no delinquent compliance items for Rincon Ranch. (ACC Compliance Section Email dated 12/03/2010)

Summary

Conclusions

1. Staff concludes that the proposed Sale of Assets and CC&N cancellation will not have an adverse effect on Rincon Ranch customers and their water service. Staff understands that the City plans to undertake system improvements.
2. ADEQ regulates the Rincon Ranch water system under ADEQ Public Water System I.D. No. 10-100. ADEQ has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. The Company is located in the Tucson AMA and is subject to AMA reporting and conservation requirements. Staff received an ADWR compliance status report on October 7, 2010. ADWR reported that Rincon Ranch is currently in compliance with departmental requirements governing water providers and/or community water systems.
4. A check of the Commission Utilities Division Compliance Section database indicated there were no delinquent compliance items for Rincon Ranch.
5. The Company reported the water loss was 7.16% in 2009. Therefore, non-account water is within acceptable limits.